Star Housing Finance Limited

February 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	167.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	**167.00 (Rs. One Hundred Sixty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Star Housing Finance Limited (SHFL) factors the steady transformation in corporate governance structures since the onboarding of its strategic investor, Arkfin Investments Private Limited (Arkfin) in 2019. This has resulted in a change in lending strategy with SHFL focusing on the retail housing loan portfolio with a simultaneous run-down of the project loan segment. Further, decision making in the company is now fairly distributed across a well-defined management structure as compared to its earlier promoter-driven business model. The rating reflects SHFL's moderate operational scale with the required capital base and low gearing levels. Additional capital infusion expected by March 2022 is expected to lend support towards maintaining adequate networth in the near term.

The rating strengths are partially offset by its moderate profitability due to high operational costs led by branch expansions and management hirings considering the company is in the transformation and growth phase. CARE Edge takes note of the weak asset quality of the company with relatively higher stressed assets on account of significant amount of restructuring made in portfolio due to challenging macro-economic environment on account of Covid-19 aggravated by its exposure to the weaker, low-income self-employed borrower segment, and moderate seasoning albeit, this risk is partly offset by the secured nature of lending. The rating continues to remain constrained by its relatively small scale and geographically concentrated operations. The company's resource profile continues to remain modest; however, the same has witnessed improvement with access to funding from refinance lines from National Housing Bank (NHB) aiding in improvement in cost of funds.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in operational scale with increase in market share and geographical diversification of the loan portfolio;
- Ability to maintain healthy asset quality;
- Steady improvement in earnings with ROTA above 2%;
- Further diversification in the liability profile with demonstrated ability to garner resources at favourable rates.=

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with Gross NPA ratio above 5%;
- Deterioration in profitability on a sustained basis;
- Overall gearing exceeding 4 times.

Detailed description of the key rating drivers

Key Rating Strengths

Steady Transformation in Business and Corporate Governance Structure: SHFL has been traditionally operating as a promoter driven company with operations mainly in Rajasthan since its inception till Sep 2019. Post equity infusion of Rs. 15.50 crore in October 2019 from Arkfin Investments Private Limited (Arkfin), SHFL has undergone a steady alteration in line with its strategy to become a professionally run company. As of Dec 31, 2021 Arkfin is the single largest shareholder in SHFL at 21.5%.
Subsequently, SHFL has expanded its geographic presence to Maharashtra, Madhya Pradesh, Gujarat, Rajasthan and Tamil Nadu with 7 branches and 15 digital points of presence including moving its registered/corporate office to Mumbai. The company now exclusively focuses on retail home loans, targeting first time home buyers from the Economically Weaker Section / Low Income Group (EWS / LIG) borrower segment looking to purchase/construct own homes that qualify under PMAY (Pradhan Mantri Awas Yojana) in tier II, III towns and semi-urban geographies. The company has consequently, reduced its exposure to project loans, which has reduced from 48% of its Assets Under Management (AUM) in Sep 30, 2019 to less than 9.6% as on Dec 31, 2021. The erstwhile franchise-based business model has been replaced with in-house sourcing, underwriting, processing and collection. Additionally, SHFL has entered into Co-Lending Agreement with Capital India Home Loans. Furthermore, the overall corporate governance framework is being strengthened through reconstitution of the promoter-driven board with a professional management in a steady phased manner.
SHFL now operates as an independent entity managed by a set of housing finance professionals across domains and geographies. Mr. Anil Sachidanand, the MD of Arkfin and a three-decade veteran in the residential mortgage space provides the necessary guidance for implementation of the structural changes as and when required.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable Capital Adequacy and Gearing: Total capital increased to Rs.63 crore as on Dec 31, 2021 aided by the equity infusion from Arkfin and additional equity of Rs.8.1 crore raised through preferential allotment. Subsequently, the company maintained ample capital levels with a Tier 1 CAR and CAR of 75.12% and 73.91% respectively. As at Dec 31, 2021, gearing remained comfortable at around 1.0x levels (Total borrowings/ Tangible net worth). Going forward, CARE Edge understands that additional capital infusions by the investors are likely in Q4FY22. This will further augment the capital base to about Rs. 75 crores, thus enhancing its ability to fund growth in its early years of business. CARE Edge understands that the management will maintain gearing at less than 3.5x at all times.

Evolving Risk Management Practices and Processes: SHFL's efforts to improve its credit risk appraisal processes has led to the launch of a core lending platform called Jaguar, which is a digital platform for credit appraisal. SHFL has also deployed digital collection platform for receivable management enabling the company to monitor end-to-end processing from log-in, sanction, disbursement and receivable management. Active portfolio risk management mechanism includes monitoring of the credit portfolio on a regular basis and enabling of a maker checker policy adopted for all the processes in loan underwriting to avoid frauds. According to CARE Edge, the ability of the company to evolve and continuously improve its risk control systems will remain a key rating sensitivity.

Moderately Diversified Resource Profile: The company's borrowing profile is moderately diversified for its size and constitutes NHB refinance lines (32.8%), term loans from banks (45.6%) and NBFCs/HFCs (21.7%) as on Dec 31, 2021. The company has an established lender relationship with 11 lenders as on Dec 31, 2021 with the top 5 lenders constituting 89% of total borrowings outstanding as on Dec 31, 2021. While CARE Edge notes that SFHL's recent borrowings are at relatively lower rates in line with similar trends visible across the industry, the ability of the company to continue to source funds at competitive rates will remain a key monitorable.

Key Rating Weaknesses
Small Size and Geographically Concentrated Operations: As on Dec 31, 2021, SHFL is operating out of the 5 states of Rajasthan, Maharashtra, Madhya Pradesh, Gujarat, and Tamil Nadu, with 7 branches and currently employing more than 80 people. Loan portfolio stood at Rs.101.6 crore with the top geographic exposure being Rajasthan which forms 34.4% of the portfolio (reduced from 74% of portfolio as on March 31, 2019) followed by Maharashtra (34% of portfolio) as on Dec 31, 2021. CARE Edge expects geographic diversification to improve gradually as the company increases its scale in the medium term.

Earnings Moderated by High Operating Costs: Lending rates decreased as a result of reduction in exposure to the higher yielding project loan segment coupled with rationalisation of yield from ~20% and above to 15-16%. This was partly offset by the reduction in borrowing costs to 9.5% aided by borrowings from public sector banks and the NHB. As a result, NIM contracted to 9.84% in FY21 (FY20: 13.33%). The company's operational expense/ avg. total assets is on an increasing trend with company being on a growth phase with expansion from one branch in FY19 to 7 branches as on date while employee strength has also increased from 20 in FY19 to 80 in FY21. This is in line with the expenses required for SHFL's structural and operational changes with efforts towards digitisation which led to increase in cost to income ratio to 61.0% in FY21 as against 36.7% in FY20. Credit cost during FY21 stood higher at 1.82% on account of write-off of Rs.1.26 crore during FY21 which were largely from its legacy book (pre-Oct 2019). Consequently, ROTA witnessed deterioration to 1.45% in FY21 as against 6.18% in FY20. ROTA further declined to 0.98% in 9MFY22 with increase in cost to income ratio to 80.6% during 9MFY22. Going forward, ROTA is expected to remain moderate considering opex/assets is expected to remain high.

Higher Proportion of Restructured Assets: The company's GNPA% and NNPA% stood at 3.34% and 2.83% respectively as on Dec 31, 2021, as against 3.05% and 2.59% as on Mar 31, 2021 (Mar 31, 2020: 3.33% and 2.76%). Furthermore, the company's stressed assets stood relatively higher with significant share of restructured portfolio of Rs.16.7 crore as on Dec 31, 2021. This was a result of the business disruption caused due to Covid 19 pandemic which has hit EWS/LIG segment relatively harder. The management stated that the restructuring was done in line with the extant RBI guidelines. The share of restructured assets translates to 16.5% of gross advances and remains relatively high. SHFL has an operational track record of over a decade in the sector. Nevertheless, CARE Edge notes that the loan book has doubled post FY18 and given the long tenure nature of HF loans the seasoning of loan book remains moderate. Going forward, the ability of the company to limit delinquencies will remain a key monitorable.

Inherent Risk Associated with the Borrower Segment Partly Offset by the Secured Nature of Lending: SHFL primarily focuses on the self-employed and informal income borrower segment, especially the Economically Weaker Section (EWS) of the society, majority of whom have undocumented incomes. Further, the customer segment is exposed to volatility in cash-flows and economic disruptions. The risk is partly offset by the secured nature of the loan book to some extent, although the average LTV of the company is relatively higher compared to its peers. CARE Edge also notes that the exposure to wholesale loans has come down from 48% in Sep 30, 2019 to now less than 10% as on Dec 31, 2021.

Liquidity: Adequate
As per the ALM statement of Dec 31, 2021, the company has negative cumulative mismatch (excluding inter corporate deposit) of Rs. 5 crore in its less than 1-year tenor bucket. This is a characteristic of HFCs wherein loans extended to clients have longer tenure against its shorter tenure of liabilities. Company had undrawn CC limit of Rs.0.76 crore as on December 31, 2021. The company's liquidity is expected to be supported by near term fund infusion from its investors.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Financial Ratios - Financial Sector
Rating Methodology - Housing Finance Companies (HFCs).

About the Company
Star Housing Finance Ltd. (SHFL; erstwhile Akme Star Housing Finance Limited (ASHFL)) commenced operations from September 2009 after getting registered with National Housing Bank. Initially, the company was incorporated as Akme Buildhome Pvt. Ltd. on March 17, 2005, built by two promoter families namely Late Dr. Mohan Lal Nagda and Shri. Nirmal Jain. The company is primarily engaged in providing housing loans to individuals for construction, purchase, repair, and upgradation of houses to the under-served segments in the lower- and middle-income categories. The name of the company was changed to Akme Star Housing Finance Pvt. Ltd. in October 2009 and its constitution was changed to public limited and name was changed to ASHFL in November 2009. Company got listed in BSE in March 2015. Mr. Ashish Jain is the Chairman and Managing Director of the company from 2018. Arkfin Investments Private Limited (Arkfin) invested equity capital of Rs.15.5 crore in October 2019 for a stake of 21.5%. Post receipt of equity capital from Arkfin, company has expanded its branch network to 5 states with 7 branches as on March 31, 2021. Company now operates in the Udaipur, Mumbai, Pune, Akola, Indore, Chennai, and Surat with AUM of Rs.101.6 crore as on December 31, 2022.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)
Total operating income	15.90	15.60	13.75
PAT	5.04	1.56	0.90
Total Assets	90.44	123.86	122.76
Net NPA (%)	2.76	2.59	2.83
ROTA (%)	6.18	1.45	0.98

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	April 2028	161.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	6.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (25-Jan-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (25-Jan-19)
3	Fund-based-Long Term	LT	161.00	CARE BBB-; Stable				
4	Fund-based - LT-Cash Credit	LT	6.00	CARE BBB-; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	• CAR to be maintained 2% above regulatory requirement. • Debt/Tangible Net worth not to exceed 7.5x.
B. Non financial covenants	Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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